Agriculture and Agri-Food Canada | Agriculture et Agroalimentaire Canada

Bi-weekly Bulletin

May 29, 2007 Volume 20 Number 9

WHEAT: SITUATION AND OUTLOOK

For 2007-2008, wheat prices are expected to remain near the historically high levels of 2006-2007 due to continuing tight wheat stocks and high United States (US) corn prices. This issue of the *Bi-weekly Bulletin* examines the situation for wheat for 2006-2007 and the outlook for 2007-2008. "Wheat" refers to all wheat including durum, unless otherwise specified.

World wheat production in 2006-2007 fell by 28 million tonnes (Mt), to 594 Mt, of which about 35 Mt was durum wheat and 559 Mt other classes of wheat. World wheat supplies declined by 31 Mt, to 743 Mt, due to lower production and carry-in stocks.

For **2007-2008**, world production is forecast by the United States Department of Agriculture (USDA) to increase by 4% to a near-record 617 Mt. Supply is also forecast to increase but higher production will be partly offset by lower carry-in stocks. Wheat consumption is forecast to increase slightly due to greater non-feed use. World wheat carry-out stocks are expected to fall by 6% from the previous year, to 113 Mt, with the stock-to-use (s/u) ratio at a record low of 18%. Trade is expected to remain near the 2006-2007 level of 110 Mt.

Non-durum wheat production is forecast to increase by 4% in 2007-2008, to about 581 Mt, with world trade forecast to be relatively unchanged at 103 Mt, slightly above the 10-year average.

Durum wheat production in 2007-2008 is forecast by the International Grains Council (IGC) to rise to 36 Mt, similar to the 10-year average, mainly due to increased production in the US and Canada. World trade is expected to rise to 6.9 Mt from 6.8 Mt in 2006-2007.

United States

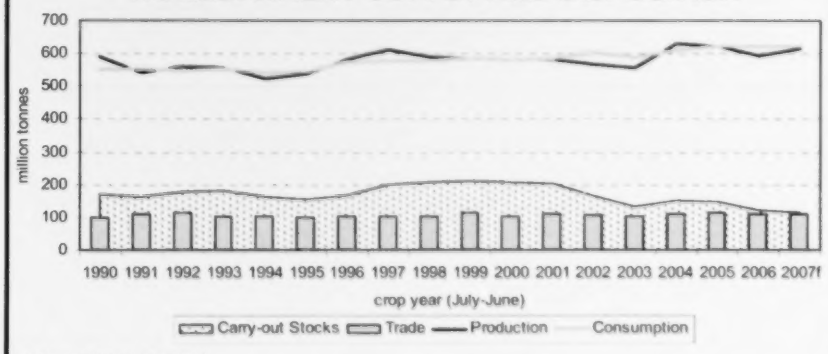
US wheat production fell by 14% in 2006-2007, due to drought in the major hard red winter (HRW) and hard red spring (HRS) producing regions. As a result, carry-out stocks are forecast by the USDA to fall by 28% to 412 million bushels (Mbu), the lowest since 1995-1996.

For 2007-2008, production of all classes of wheat in the US is forecast by the USDA to increase by 20%, to 2.17 billion bushels (Gbu), based on a 5% rise in seeded area and trend yields. Domestic consumption is forecast to rise by 5%, mainly due to a sharp increase in feed use resulting from high corn prices. Exports are projected to increase marginally, to 930 Mbu, but remain below the 10-year average of about 1 Gbu. Carry-out stocks are expected to rise by 14%, to 469 Mbu, and the s/u ratio is projected to decline to 21%, marginally above 2006-2007.

Area seeded to **winter wheat** for harvest in 2007 increased by 9% due to higher wheat prices in the fall of 2006. Production of winter wheat is expected to increase by 24%, due to the increased seeded area, lower abandonment and improved yields.

Soft red winter (SRW) wheat production is forecast by AAFC at 430 Mbu, 10% higher than in 2006-2007. Feed use of SRW wheat is expected to increase substantially, to 160 Mbu, as a result of high corn prices which will make wheat feeding a more attractive alternative. Carry-out stocks are forecast to rise slightly, with the s/u ratio increasing to 23%.

WORLD: WHEAT SUPPLY AND DISPOSITION



f: forecast, USDA, May 2007
Source: USDA

Canada

HRW production is projected to increase by nearly 35% from the drought-reduced crop of 2006-2007, to a near-normal 914 Mbu. With increased supplies, exports are expected to increase by over 40%, to a near-normal 395 Mbu, with carry-out stocks rising by 5%. The s/u ratio is expected to increase marginally to 19%.

The area seeded to **spring wheat** is expected to decline by 9%, but production of HRS wheat is forecast by AAFC to rise by 11% to 480 Mbu due to reduced abandonment and a return to normal yields. **HRS** exports are forecast to increase by 12%, with carry-out stocks rising by 9% and a s/u ratio of 26%, just marginally higher than for 2006-2007.

As a result, prices for 2007-2008 on the Kansas City Board of Trade (KCBT), which trades HRW wheat, and the Minneapolis Grain Exchange (MGE), which trades HRS wheat, are expected to have slightly smaller premiums over SRW wheat on the Chicago Board of Trade (CBoT) than in 2006-2007. Prices for lower quality wheat will be supported by the strong corn market, with feed-equivalent prices setting a floor for low and medium quality wheat. For high quality milling wheat, however, prices are expected to be supported by decreased spring wheat production and a return to normal quality in western Canada.

Durum area is expected to rise by only 6% from the extremely low level of 2006-2007, to about 2 million acres, only 61% of the 10-year average. Production is forecast by AAFC at 65 Mbu, 22% higher than the previous year but remaining well below the 10-year average of about 100 Mbu. However, US supplies are expected to decline by 6% due to lower carry-in stocks, assuming that imports remain near the previous year's level. Exports are projected to decrease by 29% due to record low supplies, with carry-out stocks forecast to decline to a record low 20 Mbu.

The national loan rate under the US *Farm Security and Rural Investment Act* (FSRIA) for wheat for 2007-2008 is US$2.75 per bushel (/bu). There are individual loan rates by class of wheat. The target price, which determines the counter-cyclical payment (CCP) is US$3.86/bu for wheat, well below the expected actual farm price. The target price is not county-specific. The CCP is determined by the target price minus the fixed payment (US$0.25/bu) minus the higher of the loan rate or the average farm price, meaning that payments in both 2006-2007 and 2007-2008 are expected to be near zero. The CCP is based on 85% of a farmer's base area and yields.

European Union (EU)-27

The EU-27 produced 124.8 Mt of wheat in 2006-2007, down 5% from 2005-2006, mainly as a result of late-season dryness. However, because of strong demand for EU wheat, related to low production in other exporting countries such as the US, Ukraine and Russia, EU exports are expected to decrease by only 2 Mt from 2005-2006 to 14 Mt. Strong world prices have meant that no export subsidies have been used by the EU since July 2006. Carry-out stocks are forecast to fall by almost 40%, to 14.3 Mt.

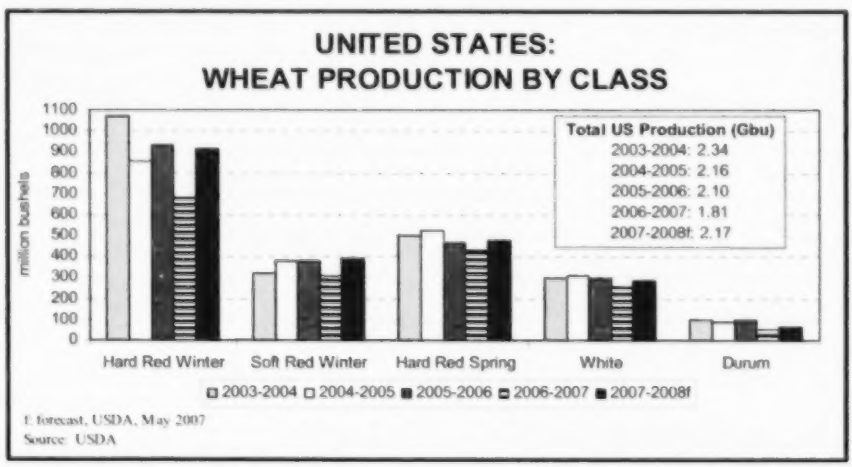
For 2007-2008, EU production is forecast by the USDA to increase marginally to 127.3 Mt. Domestic supplies will fall by 4%, however, because of the lower carry-in stocks. Exports are projected to decrease by 14% to 12.0 Mt, the lowest since 2003-2004. EU domestic consumption is forecast to decrease slightly, mainly due to lower feed use, and carry-out stocks are expected to fall by 12%, to 12.6 Mt, remaining well below the 10-year average of over 18 Mt.

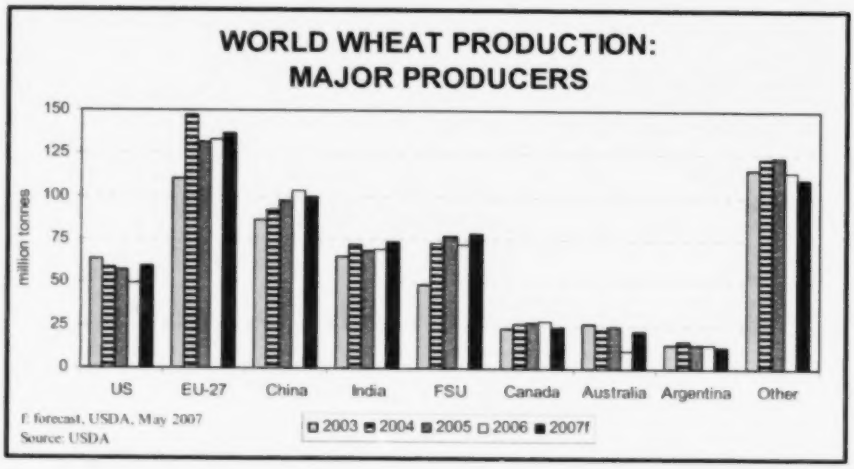
Durum wheat accounts for 8-10% of total EU wheat production, with about 98% of this grown in Italy, Spain, France and Greece, along the Mediterranean Sea. EU production in 2006-2007 is estimated by the IGC at 8.6 Mt, 2% higher than the previous year. Imports are projected to decline by 10%, to 1.8 Mt. Canadian durum exports to the EU, however, are expected to decline only slightly from 1.1 Mt in 2005-2006 due to reduced competition from other exporters such as Australia.

The IGC projects EU durum production to remain unchanged from 2006-2007 at 8.6 Mt with imports and carry-out stocks similar to 2006-2007.

Australia

Australia experienced one of the driest years on record in 2006, with wheat production dropping by 58%





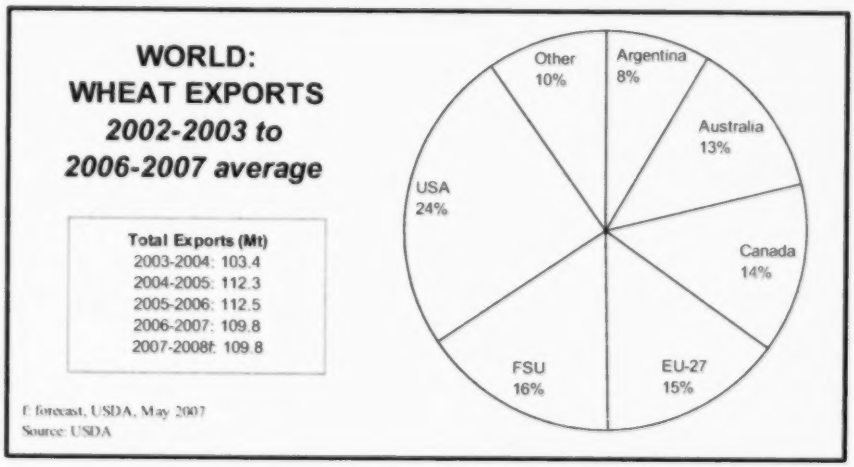
to only 10.5 Mt, about half the size of the 10-year average crop. Exports during the Australian October-September crop year are projected to fall by 34%, to 10.5 Mt; the decline is less dramatic for the northern hemisphere July-June crop year, at 21%, with more of the impact carrying over into 2007-2008. Carry-out stocks are forecast to fall by 73% to 2.6 Mt, the lowest in 10 years.

For 2007-2008, precipitation has returned to near-normal in most regions, and the USDA projects a 22.1 Mt crop for 2007. Exports are forecast to increase by 13% for the July 2007 to June 2008 period, to 13.5 Mt.

Australian durum tends to be of good quality due to the hot dry growing conditions, and Australia has become a major competitor in the premium Italian market. Australian durum production has averaged about 500 thousand tonnes (kt) over the past decade, but fell to only 200 kt in 2006 due to drought. Exports are forecast by IGC to fall by over 40%, to 130 kt, the lowest since 1998-1999. For 2007-2008, production is expected to return to about 500 kt with exports rising to 300 kt.

Former Soviet Union (FSU)

Wheat production in the FSU declined by about 6% in 2006 to 85.9 Mt, mainly due to winterkill in Russia and Ukraine. Russian production fell by 6% to 44.9 Mt, with Ukraine falling by 20% to 14.0 Mt, more than offsetting a 23% increase in Kazakhstan. As a result, FSU exports are forecast to fall by 7% in 2006-2007, to 19 Mt.



For 2007-2008, production is forecast at 91.9 Mt, with exports projected to increase by 25% to about 23.5 Mt. Consumption is forecast to rise slightly due to increased feed use, with carry-out stocks decreasing by 7% to about 12.3 Mt.

India

Wheat production in India is supported by high internal guaranteed prices, and steadily increased until about 2004, mainly due to improved yields, reaching a record 72.0 Mt that year. Significant exports of wheat commenced in 2000-2001, much of it into Southeast Asia as feed, reaching a record 5.4 Mt in 2003-2004. However, consumption has exceeded production since 2002-2003, and by 2006-2007, following two years of below-normal production, exports had fallen to near-zero, with a record 6.3 Mt expected to be imported. Carry-out stocks fell from a burdensome 23.0 Mt in 2001-2002 to only 2.0 Mt at the end of 2005-2006.

For 2007-2008, wheat production is forecast to rise by 6% to about 73.7 Mt, but this remains almost 2.0 Mt less than consumption. With minimal carry-in stocks to offset the shortfall, imports are projected to remain at a historically high 3.0 Mt.

China

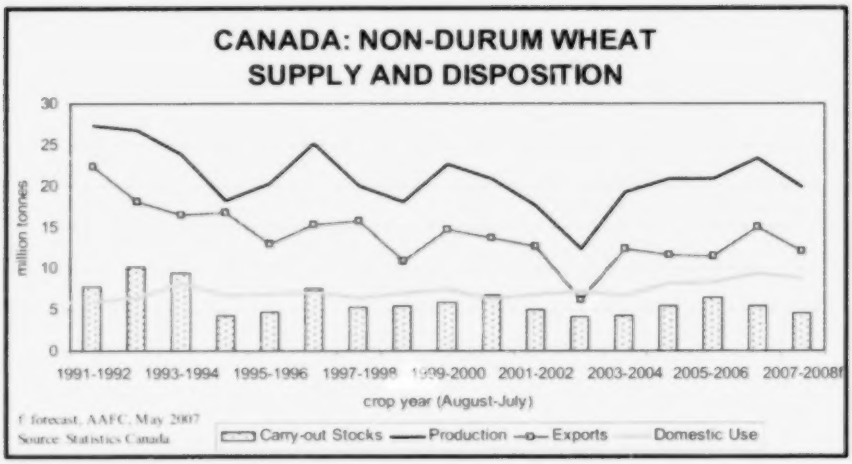
After the EU-27, China is the world's largest wheat producer, with production averaging 94.0 Mt over the past 5 years. This has declined from the average of 112.0 Mt during the latter half of the 1990s. As a result of reduced government support, the area of wheat has fallen by more than 20% since a record 31 million hectares (Mha) was harvested in 1991. This has largely affected the production of lower quality wheat, as the emphasis has shifted to producing higher quality varieties. However, lower production has not resulted in a sustained increase in wheat imports. Wheat consumption decreased from

over 110.0 Mt in 2000-2001 to 101.0 Mt for 2006-2007, as consumers diversified their diets to include more meat, fruits and vegetables. Significant imports occurred only in 2003-2004 and 2004-2005, following a drop in production to under 95.0 Mt. Production recovered to 97.5 Mt in 2005, with a further increase to 103.5 Mt in 2006, so that imports have fallen to under 1.0 Mt in 2006-2007.

For 2007-2008, production is forecast to decline by 3% to 100.0 Mt, essentially equal to expected consumption. Therefore, with carry-out stocks expected to fall slightly to 34.4 Mt, and with a s/u ratio of 34%, no significant imports are projected for 2007-2008.

North Africa

The North African countries, particularly Algeria, Morocco, Tunisia and Libya, are important to Canada as they make up the largest single world market for durum wheat. North Africa is also a major market for non-durum wheat, but sources most of its soft wheat imports from the EU and US rather than Canada. North African wheat production rose by 20% in 2006-2007, to 18.5 Mt, with durum increasing by 37% to 5.3 Mt. As a result, durum imports have declined by almost 20% to only 2.2 Mt, the lowest since 1992-1993.

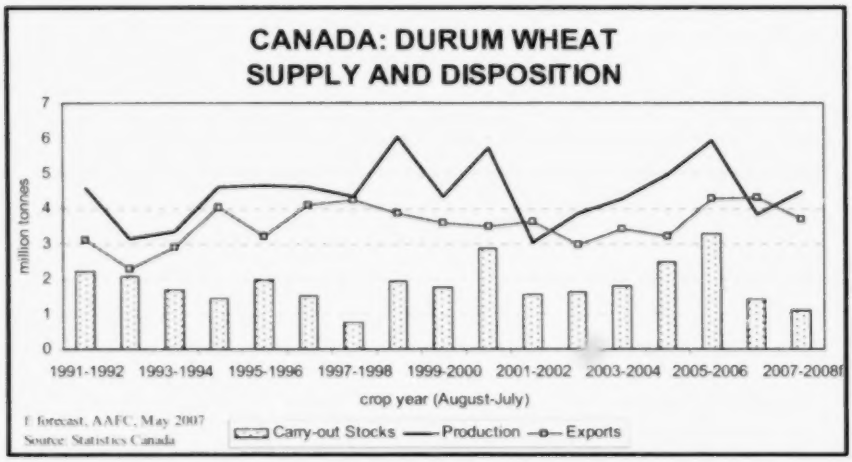


For 2007-2008 North African durum production is expected to decrease by 10% to 4.7 Mt, largely due to dryness in Morocco, with near-normal yields expected for Tunisia and Algeria. However, this remains well above the 10-year average of 3.6 Mt. As a result, imports are forecast to increase to 2.4 Mt, but remain below the 10-year average of 3.0 Mt.

Canada

For 2006-2007, **Non-durum wheat** production rose by 12% in 2006, to 23.5 Mt, as a result of the largest seeded area since 1997, including record winter wheat production in Ontario. Western wheat quality was much better than normal, with over 90% of the Canada Western Red Spring (CWRS) crop grading No.2 or better, a major change from 2005, when less than 50% of the crop was of this grade. As a result of increased supplies of better quality wheat, exports in 2006-2007 are projected to increase by over 30%, to 15.0 Mt (including products), the highest since 1997-1998. Carry-out stocks are forecast to decline by 15%, to 5.5 Mt.

For **2007-2008**, seeded area is forecast by AAFC to decline by almost 15%, to 7.7 Mha, 10% below the 10-year average. Assuming normal abandonment and trend yields, production is forecast at 19.9 Mt, 15% below 2006. Assuming a normal grade distribution, with about 75% grading No.2 CWRS or better, supplies of high quality CWRS wheat will be lower than in 2006-2007. Exports are forecast to fall by 20%, to 12.0 Mt, slightly below the 10-year average. Carry-out stocks are projected to fall by almost 18% to 4.5 Mt.



Durum wheat production fell by 35% in 2006, to 3.8 Mt, as a result of a sharp reduction in area because of low prices, poor delivery opportunities and burdensome stocks in the previous year. Quality was much better than normal, however, with over 80% grading No.2 Canada Western Amber Durum (CWAD) or better, versus less than 50% the previous year and the normal of about 65%. Therefore, supplies of good quality durum for 2006-2007 were in fact

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CANADA: GRAINS AND OILSEEDS OUTLOOK

May 29, 2007

Total production of grains and oilseeds (G&O) in Canada is forecast by Agriculture and Agri-Food Canada to increase by 3% from 2006-07, to 66.3 million tonnes (Mt), versus the 10-year average of 59.8 Mt. Higher area seeded to durum wheat, coarse grains and oilseeds is estimated by Statistic's Canada to be partly offset by lower area seeded to wheat ex-durum. Normal abandonment, trend yields and crop quality are assumed. In general, soil moisture reserves are adequate. Production is forecast to increase slightly to 49.2 Mt in western Canada and 17.2 Mt in eastern Canada. The total supply of G&O in Canada is forecast to decline by about 5% due to lower carry-in stocks, as supported by Statistics Canada's March 31, 2007 report on stocks. Lower exports of wheat and coarse grains are expected to be only partly offset by higher exports of oilseeds. Despite lower supply, domestic use is forecast to increase from the historical high of 2006-07. Carry-out stocks are forecast to fall by 9%. World G&O prices are expected to remain high due the strength of the biofuel sector in the US and the European Union (EU). Canadian prices will continue to be under pressure from the strong Canadian dollar relative to the US dollar. The main factors to watch are exchange rates, petroleum prices, weather and growing conditions in Canada and the major importing and exporting countries.

DURUM

For 2007-08, production is forecast to increase by 17%, but remain below the 10-year average of 4.6 Mt. However, supply is expected to decrease significantly to 5.9 Mt, the lowest since 2003-04, due to lower carry-in stocks. Exports are forecast to fall by 12% to 3.8 Mt, due to reduced supply and increased competition from other exporters. Carry-out stocks are forecast to fall by 21%, to the lowest level since 1997-98. The CWB Pool Return Outlook (PRO) for No.1 CWAD 11.5% has been lowered by $7/t from the April forecast, due to the stronger Canadian dollar, and is now $212/t I/S VC/SL vs. $217/t expected for 2006-07. The premium for durum is $12/t above CWRS.

WHEAT (ex-durum)

Production is forecast to decline by 15%, with farmers shifting area into durum wheat, canola, oats and barley. Industrial use is expected to increase as new ethanol plants come on-line in western Canada. Exports are forecast to decline by 20% due to reduced supply and increased domestic demand Carry-out stocks are forecast to fall by 18%. The CWB PRO for No.1 CWRS 11.5% is down by $7/t from last month, to $200/t I/S VC/SL vs. $212/t for 2006-07, due to the stronger outlook for the Canadian dollar.

BARLEY

Production is forecast to increase by 20%, due to higher area and yields, but supply is expected to increase only slightly due to significantly lower carry-in stocks. Slightly higher exports are forecast to be more-than offset by lower domestic use so that carry-out stocks increase by 6%. The average off-Board feed barley price (No. 1 CW I/S Lethbridge) is forecast to decrease to $160/t from $165/t expected for 2006-07.

CORN

Production is forecast to increase by 24% to a new record, as area shifts into corn from wheat and other crops. Imports are forecast to decrease by 24% as a result of significantly higher domestic supply. Corn use for ethanol production is forecast to increase by 34% while feed use increases only slightly. Carry-out stocks are forecast to rise by 12%. The average price at Chatham elevator is forecast to increase to $160/t, from $140/t expected for 2006-07, largely due to higher US corn prices and normal crop quality.

OATS

Production is forecast to rise by 22% due to larger seeded area and yields. Supply is expected to increase by 9% as higher production more than offsets lower carry-in stocks. Exports are forecast to decline by 15% from the record high set in 2006-07, as exports from the EU recover from the low production of 2006-07. Although feed use is expected to rise, carry-out stocks are forecast to increase significantly. The average nearby Chicago Board of Trade futures price for oats is forecast to fall to $170/t from $190/t expected for 2006-07.

CANOLA

Production is forecast to increase by 8% to a record 9.8 Mt as higher seeded area more than offsets lower yields. Supply is expected to increase to a record 11.7 Mt, as the higher output more than offsets lower carry-in stocks. Exports are forecast to increase by 6% to a new record of 6.0 Mt. . Domestic crush is expected to increase by 6%, as plants under construction begin operation during the crop year. Carry-out stocks are forecast to decrease but remain historically high. The average cash price of canola is forecast to increase to $380/t from $365/t expected for 2006-07.

FLAXSEED (excluding solin)

Production is expected to decrease sharply due to lower area seeded. However, the decline in supply is expected to be moderated by higher carry-in stocks. Exports are forecast to remain unchanged on stable EU demand and lower US output. Total domestic use is forecast to decline. Carry-out stocks are expected to remain high at 0.25 Mt vs. the 10-year average of 0.20 Mt. The average price is forecast to increase to $340/t, from $295/t expected for 2006-07, on support from higher world vegetable oil and crude oil prices.

SOYBEANS

Production is forecast to decline by 16% due to lower area seeded and sharply lower yields. Supply is forecast to decrease by 8% as the drop in output is moderated by slightly higher carry-in stocks and higher imports. Exports are forecast to increase to a record high, while domestic crush rises by 5% to 1.6 Mt. Carry-out stocks are forecast to decrease sharply due to lower supply and the average Chatham price of soybeans is forecast to increase to $280/t from $260/t expected for 2006-07.

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CANADA: GRAINS AND OILSEEDS SUPPLY AND DISPOSITION

May 29, 2007

Grain and Crop Year (a)	Area Seeded	Area Harvested	Yield	Production	Imports (b)	Total Supply	Exports (c)	Food & Industrial Use (e)	Feed, Waste & Dockage	Total Domestic Use (d)	Carry-out Stocks	Average Price (f)
	thousand ha		*t/ha*	*thousand metric tonnes*								*$/t*
Durum												
2005-2006	2,341	2,297	2.58	5,915	4	8,405	4,273	249	451	867	3,266	179
2006-2007f	1,760	1,738	2.20	3,821	1	7,088	4,300	250	958	1,388	1,400	217*
2007-2008f	2,003	1,985	2.25	4,470	1	5,871	3,800	250	521	971	1,100	212*
Wheat Except Durum												
2005-2006	7,753	7,530	2.77	20,860	23	26,318	11,499	2,877	4,605	8,378	6,442	180
2006-2007f	8,964	8,796	2.67	23,456	24	29,922	15,000	3,000	5,650	9,422	5,500	212*
2007-2008f	7,664	7,450	2.67	19,870	24	25,394	12,000	3,300	4,815	8,894	4,500	200*
All Wheat												
2005-2006	10,094	9,826	2.72	26,775	26	34,723	15,771	3,126	5,056	9,244	9,708	
2006-2007f	10,725	10,534	2.59	27,277	25	37,010	19,300	3,250	6,608	10,810	6,900	
2007-2008f	9,667	9,435	2.58	24,340	25	31,265	15,800	3,550	5,336	9,865	5,600	
Barley												
2005-2006	4,440	3,889	3.21	12,481	46	15,962	2,975	167	9,192	9,698	3,289	110
2006-2007f	3,861	3,362	2.98	10,005	45	13,338	1,950	230	9,373	9,988	1,400	160-170
2007-2008f	4,380	3,910	3.07	12,000	35	13,435	2,100	300	9,035	9,735	1,600	150-170
Corn												
2005-2006	1,124	1,096	8.63	9,461	1,905	13,167	242	2,220	8,692	10,924	2,001	96
2006-2007f	1,127	1,093	8.48	9,268	2,100	13,369	200	2,900	8,554	11,469	1,700	135-145
2007-2008f	1,430	1,340	8.58	11,500	1,600	14,800	200	3,900	8,785	12,700	1,900	150-170
Oats												
2005-2006	1,853	1,326	2.59	3,432	20	4,427	1,877	79	1,439	1,678	872	144
2006-2007f	1,923	1,431	2.52	3,602	20	4,494	2,300	70	1,433	1,694	500	185-195
2007-2008f	2,300	1,710	2.57	4,400	10	4,910	2,200	80	1,555	1,810	900	160-180
Rye												
2005-2006	226	148	2.42	359	1	490	132	48	143	208	150	81
2006-2007f	201	130	2.33	302	1	453	160	48	128	193	100	90-100
2007-2008f	170	110	2.27	250	1	351	130	48	96	161	60	90-110
Mixed Grains												
2005-2006	209	109	2.78	303	0	303	0	0	303	303	0	
2006-2007f	245	107	2.72	291	0	291	0	0	291	291	0	
2007-2008f	225	115	2.87	330	0	330	0	0	330	330	0	
Total Coarse Grains												
2005-2006	7,852	6,568	3.96	26,036	1,972	34,349	5,227	2,514	19,768	22,811	6,311	
2006-2007f	7,356	6,122	3.83	23,467	2,166	31,944	4,610	3,248	19,778	23,634	3,700	
2007-2008f	8,505	7,185	3.96	28,480	1,646	33,826	4,630	4,328	19,801	24,736	4,460	
Canola												
2005-2006	5,491	5,283	1.83	9,660	140	11,386	5,409	3,423	495	3,959	2,019	278
2006-2007f	5,373	5,322	1.71	9,105	175	11,299	5,650	3,475	429	3,949	1,700	355-375
2007-2008f	6,002	5,909	1.66	9,800	150	11,650	6,000	3,700	405	4,150	1,500	360-400
Flaxseed												
2005-2006	842	803	1.35	1,082	38	1,144	537	n/a	n/a	272	336	276
2006-2007f	842	826	1.26	1,041	10	1,387	650	n/a	n/a	287	450	285-305
2007-2008f	579	550	1.22	670	20	1,140	650	n/a	n/a	240	250	320-360
Soybeans												
2005-2006	1,176	1,169	2.70	3,161	339	3,771	1,316	1,493	338	1,959	495	220
2006-2007f	1,238	1,226	2.88	3,533	250	4,278	1,600	1,475	503	2,103	575	250-270
2007-2008f	1,186	1,176	2.53	2,975	400	3,950	1,700	1,550	350	2,000	250	260-300
Total Oilseeds												
2005-2006	7,510	7,255	1.92	13,904	517	16,301	7,261	4,916	832	6,189	2,850	
2006-2007f	7,452	7,373	1.86	13,679	435	16,964	7,900	4,950	932	6,339	2,725	
2007-2008f	7,767	7,635	1.76	13,445	570	16,740	8,350	5,250	755	6,390	2,000	
Total Grains And Oilseeds												
2005-2006	25,456	23,650	2.82	66,715	2,515	85,373	28,259	10,555	25,656	38,245	18,869	
2006-2007f	25,533	24,030	2.68	64,423	2,626	85,918	31,810	11,448	27,318	40,783	13,325	
2007-2008f	25,939	24,255	2.73	66,265	2,241	81,831	28,780	13,128	25,892	40,991	12,060	

(a) Crop year is August-July except corn and soybeans which are September-August.

(b) Excludes imports of products. (c) Includes exports of products for wheat, oats, barley, and rye. Excludes exports of oilseed products.

(d) Total Domestic Use = Food and Industrial Use + Feed Waste & Dockage + Seed Use

(e) Soybean food and industrial use is based on data from the Canadian Oilseed Processors Association. Totals excludes flaxseed due to data confidentiality.

(f) Crop year average prices: No.1 CWRS 11.5% protein and No.1 CWAD 11.5% (CWB final price I/S St. Lawrence/Vancouver); Barley (No. 1 feed, WCE, cash, I/S Lethbridge); Corn (No.2 CE, cash, I/S Chatham); Oats (US No. 2 Heavy, CBoT nearby futures); Rye (No.1 CW, I/S Saskatoon); Canola (No. 1 Canada, WCE, cash, I/S Vancouver); Flaxseed (No. 1 CW, WCE, cash, I/S Thunder Bay); Soybeans (No. 2, I/S Chatham).

* Canadian Wheat Board Pool Return Outlook (PRO) – CWB May PRO.

f: forecast; Agriculture and Agri-Food Canada: May 29, 2007

Source: Statistics Canada, Cereals and Oilseeds Review Series, Cat. No. 22-007

Agriculture and Agri-Food Canada | Agriculture et Agroalimentaire Canada

CANADA: PULSE AND SPECIAL CROPS OUTLOOK

May 29, 2007

For 2007-08, total area seeded to pulse and special crops in Canada is expected to increase by 4% from 2006-07, as higher areas for dry peas, chickpeas, mustard seed and canary seed are partly offset by lower areas for lentils, dry beans and buckwheat. The sunflower seed area is expected to be the same as in 2006-07. Statistics Canada's (STC) seeding intentions survey, conducted during March 23-31 and released on April 24, provided estimates for most pulse and special crops, but the seeded area for buckwheat was forecast by AAFC. Overall seeding progress has been normal, but there have been delays in parts of northern Saskatchewan and northern Alberta because of excessive moisture. It is assumed that precipitation will be normal for the growing and harvest periods, and that the abandonment rate and quality will be normal. Trend yields are assumed for both western and eastern Canada, as soil moisture reserves are generally good.

Total production in Canada is forecast to increase by 4% to 4.61 million tonnes (Mt). Total supply is expected to decrease by 9% to 5.46 Mt, as the increase in production is more than offset by lower carry-in stocks. This report incorporates information from the STC March 31, 2007 estimates of stocks. Exports and domestic use are forecast to decrease due to the lower supply. Carry-out stocks are expected to decrease to historically low levels for most crops. Average prices, over all types, grades and markets, are forecast to increase for 2007-08, over 2006-07, for dry peas, lentils, dry beans, mustard seed, canary seed, sunflower seed and buckwheat, but decrease for chickpeas. The main factors to watch are exchange rates, petroleum prices, weather and growing conditions in Canada and the major importing and exporting countries.

DRY PEAS

For **2007-08**, production is forecast to increase because of a 2% rise in seeded area and higher yields, while supply decreases slightly, as lower carry-in stocks more than offset the increase in production. The increase in production is expected to be for the yellow type, while production of green and other types remains stable. Total Canadian use is expected to be limited by supply with exports remaining stable, while domestic use decreases slightly. Carry-out stocks are forecast to be the same as for 2006-07, with a stocks-to-use ratio (s/u) of 8%. World supply is forecast to remain stable at 11.1 Mt, as higher production, mainly in Canada, the US and Australia, is offset by lower carry-in stocks. The main factor affecting Canadian prices is world supply, but Canadian supply is a major component of world supply. The average price, over all types, grades, and food and feed markets, is expected to increase slightly from 2006-07 due to sharply lower world and Canadian carry-in stocks.

LENTILS

For **2007-08**, production is forecast to decrease due to the 9% drop in seeded area and lower yields. Production is expected to decrease mainly for large, medium and small green lentils, with a smaller decrease for red lentils. Supply is expected to decrease sharply, as lower carry-in stocks compound the decrease in production. Canadian exports are expected to decrease due to the lower supply and carry-out stocks are forecast to decrease sharply, with a s/u of 4%. World supply is forecast to decrease by 5% to 4.0 Mt, as slightly higher production, mainly in Australia, is more than offset by lower carry-in stocks. The main factor affecting Canadian prices is world supply, but Canadian supply is a major component of world supply. The average price, over all types and grades, is forecast to increase from 2006-07 because of the lower world and Canadian supply.

DRY BEANS

For **2007-08**, production and supply are forecast to decrease because of the 6% lower seeded area and lower yields. Production is expected to fall for all major classes of dry beans; white pea, pinto, black, dark and light red kidney, cranberry, Great Northern, pink and small red. Canadian exports are forecast to decrease due to the lower supply. Carry-out stocks are expected to fall, with a s/u of 8%. US production is forecast to fall by 7% to 0.96 Mt, while supply falls by 8% to 1.11 Mt, due to lower production and carry-in stocks. The most important factor affecting Canadian prices is US supply and the second most important factor is Canadian supply. The average price, over all types and grades, is forecast to increase because of the lower US and Canadian supply.

CHICKPEAS

For **2007-08**, production and supply are forecast to increase because of the 46% higher seeded area. Production is expected to increase for all types; desi, large kabuli and small kabuli. Although Canadian exports are forecast to increase because of the higher supply, carry-out stocks are expected to rise, with a s/u of 19%. World supply is forecast to increase by 7% to 9.4 Mt, mainly due to higher production in India and Pakistan. The main factor affecting Canadian prices is world supply, but Canada is becoming a significant producer. The average price, over all types and grades, is forecast to decrease due to the higher world and Canadian supply.

MUSTARD SEED

For **2007-08**, production is forecast to increase because of the 18% higher seeded area and higher yields, while supply decreases as lower carry-in stocks more than offset the rise in production. Production is expected to increase for all types, yellow, brown and oriental. Exports are expected to fall slightly due to higher prices. Carry-out stocks are forecast to decrease sharply, with a s/u of 28%. The main factor affecting Canadian prices is Canadian supply. The average price, over all types and grades, is expected to increase due to the lower Canadian supply.

CANARY SEED

For **2007-08**, production is forecast to increase because of the 43% higher seeded area, while supply decreases as lower carry-in stocks more than offset the increase in production. Canadian exports are expected to remain stable. Carry-out stocks are forecast to fall sharply, with a s/u of 36%. World supply is forecast to decrease by 14% to 298,000 t due to lower supply in Canada. The main factor affecting Canadian prices is Canadian supply. The average price is forecast to increase because of the lower Canadian supply.

SUNFLOWER SEED

For **2007-08**, production and supply are forecast to decrease, as a stable seeded area is more than offset by higher abandonment and lower yields. Production is forecast to decrease for both the confectionery and oilseed types. Canadian exports are forecast to decrease because of the lower supply, while domestic use remains stable. Carry-out stocks are expected to decrease, with a s/u of 14%. In the US, supply is expected to decrease by 22% to 0.85 Mt for the oilseed type and by 4% to 0.24 Mt for the confectionery type because of lower production and lower carry-in stocks. The most important factor affecting Canadian prices is US supply and the second most important factor is Canadian supply. The average price, over both types and all grades, is forecast to increase because of the lower US and Canadian supply.

BUCKWHEAT

For **2007-08**, production and supply are forecast to fall because of a lower seeded area and lower yields. The average price is expected to rise because of the lower supply.

FURTHER INFORMATION:

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CANADA: PULSE AND SPECIAL CROPS SUPPLY AND DISPOSITION

May 29, 2007

Grain and Crop Year (a)	Area Seeded	Area Harvested	Yield	Production	Imports (b)	Total Supply	Exports (b)	Total Domestic Use (d)	Carry-out Stocks	Stocks-to-Use Ratio	Average Price (e)
	thousand ha		t/ha	thousand metric tonnes						%	$/t
Dry Peas											
2003-2004	1,303	1,271	1.67	2,124	24	2,458	1,316	937	205	9	175
2004-2005	1,388	1,345	2.48	3,338	57	3,600	1,853	1,152	595	20	135
2005-2006	1,366	1,319	2.35	3,100	76	3,771	2,567	724	480	15	120
2006-2007f	1,410	1,378	2.04	2,806	75	3,361	2,150	961	250	8	165-195
2007-2008f	1,445	1,395	2.17	3,025	75	3,350	2,150	950	250	8	170-200
Lentils											
2003-2004	554	536	0.97	520	5	580	367	175	38	7	420
2004-2005	778	750	1.28	962	10	1,010	451	314	245	32	310
2005-2006	884	862	1.48	1,278	8	1,531	671	385	475	45	230
2006-2007f	567	555	1.25	693	12	1,180	740	290	150	15	300-330
2007-2008f	514	500	1.23	615	15	780	570	180	30	4	315-345
Dry Beans											
2003-2004	167	167	2.13	356	31	482	344	83	55	13	495
2004-2005	163	126	1.75	220	28	303	278	20	5	2	650
2005-2006	197	175	1.85	324	39	368	284	49	35	11	495
2006-2007f	177	174	2.09	363	35	433	335	53	45	12	510-540
2007-2008f	166	163	1.90	310	35	390	310	50	30	8	565-595
Chickpeas											
2003-2004	63	63	1.08	68	2	150	74	51	25	20	330
2004-2005	47	39	1.31	51	4	80	47	28	5	7	385
2005-2006	79	73	1.42	104	7	116	64	42	10	9	490
2006-2007f	144	144	1.26	182	5	197	135	52	10	5	545-575
2007-2008f	210	196	1.22	240	5	255	155	60	40	19	460-490
Mustard Seed											
2003-2004	340	328	0.69	226	2	288	121	75	92	47	390
2004-2005	317	304	1.01	306	1	399	119	86	194	95	295
2005-2006	212	206	0.98	201	0	395	133	72	190	93	265
2006-2007f	144	140	0.83	116	1	307	135	67	105	52	365-395
2007-2008f	170	164	0.88	145	0	250	130	65	55	28	425-455
Canary Seed											
2003-2004	251	243	0.93	226	0	246	165	14	67	37	345
2004-2005	356	318	0.95	301	0	368	163	37	168	84	230
2005-2006	190	186	1.22	227	0	395	185	20	190	93	195
2006-2007f	119	115	1.02	117	0	307	175	22	110	56	325-355
2007-2008f	170	161	0.96	155	0	265	175	20	70	36	360-390
Sunflower Seed											
2003-2004	119	115	1.30	150	16	201	96	80	25	14	405
2004-2005	87	59	0.92	54	35	114	32	64	18	19	490
2005-2006	93	75	1.19	89	28	133	46	60	27	25	345
2006-2007f	75	75	2.04	153	15	195	90	70	35	22	380-410
2007-2008f	75	71	1.55	110	20	165	75	70	20	14	430-460
Buckwheat											
2003-2004	9	9	1.11	10	1	14	5	7	2	17	355
2004-2005	9	7	0.71	5	1	8	4	4	0	0	355
2005-2006	7	6	1.33	8	1	9	4	5	0	0	355
2006-2007f	6	6	1.17	7	1	8	4	4	0	0	340-370
2007-2008f	5	5	1.00	5	1	6	3	3	0	0	350-380
Total Pulse And Special Crops (c)											
2003-2004	2,805	2,732	1.35	3,680	81	4,419	2,488	1,422	509		
2004-2005	3,145	2,948	1.78	5,237	136	5,882	2,947	1,705	1,230		
2005-2006	3,028	2,902	1.84	5,331	157	6,718	3,954	1,357	1,407		
2006-2007f	2,642	2,587	1.72	4,437	144	5,988	3,764	1,519	705		
2007-2008f	2,755	2,655	1.73	4,605	151	5,461	3,568	1,398	495		

(a) August-July crop year.

(b) Excludes products.

(c) Includes Pulse Crops (dry peas, lentils, dry beans, chick peas) and Special Crops (mustard seed, canary seed, sunflower seed, buckwheat)

(d) Includes food, feed, seed, waste and dockage. Total domestic use is calculated residually.

(e) Producer price, FOB plant. Average over all types, grades and markets.

f: forecast, Agriculture and Agri-Food Canada, May 29, 2007

Source: Statistics Canada and industry consultations.

A. SELLING PRICE OF BULK FEED INGREDIENTS AT SELECTED POINTS

May 28, 2007

SELECTED POINT	REFERENCE PERIOD	PRICE BASIS	(1) WHEAT	OATS	BARLEY	CORN	PRICE BASIS	SOYBEAN MEAL	CANOLA MEAL	MILL-FEEDS	MEAT MEAL	FISH MEAL	ANIMAL FAT	GLUTEN MEAL	GLUTEN FEED	FEED PEAS	DEHY ALFALFA	FEATHER MEAL
Vancouver	May 28, 2007	FOB	210.00	N/A	215.00	207.00		293.50	202.00	155.00		1100.00	600.00					405.00
BC (4) (7)	May 22, 2007		205.00	N/A	205.00	215.00		296.50	193.00	155.00		1100.00	575.00					405.00
Calgary	May 28, 2007	FOB	182.00	N/A	181.00	195.00		284.50			90.00	1100.00	610.00					350.00
AB (4)	May 22, 2007		182.00	N/A	184.00	195.00		284.50			90.00	1100.00	610.00					350.00
Saskatoon	May 28, 2007	FOB	157.50	185.00	150.00	189.00		284.50	N/A		110.00	N/A	610.00			194.00		360.00
SK (4)	May 22, 2007		157.50	185.00	150.00	185.00		284.50	N/A		110.00	N/A	610.00			194.00		360.00
Winnipeg	May 28, 2007	FOB	165.00	140.00	144.00	179.00		266.50	N/A		265.00	1162.50	515.00					380.00
MB (4) (9)	May 22, 2007		166.50	140.00	141.00	172.00		266.50	N/A		265.00	1162.50	515.00					380.00
Thunder Bay	May 28, 2007	In-Store	182.00	N/A	178.00													
ON (8)	May 22, 2007		182.00	N/A	178.00													
Lake Ports	May 28, 2007	On Board				162.36												
USA (3)	May 22, 2007	Vessel				165.82												
Bay Ports	May 28, 2007	In-Store	213.50	230.00	200.00													
ON	May 22, 2007		213.00	230.00	200.00													
Chatham	May 28, 2007	Track				167.75												
ON	May 22, 2007					167.26												
Toronto	May 28, 2007	N/A					FOB				145.00		545.00	N/A	N/A		285.00	325.00
ON (5)	May 22, 2007										145.00		545.00	N/A	N/A		285.00	325.00
Hamilton	May 28, 2007	N/A						281.36	N/A									
ON	May 22, 2007							279.98	N/A									
Eastern	May 28, 2007	FOB				172.41												
ON	May 22, 2007					177.00												
London	May 28, 2007	FOB												417.00	95.00			
ON	May 22, 2007													417.00	102.00			
Port Colborne	May 28, 2007	FOB								99.00				417.00	102.00			
ON	May 22, 2007									102.50				417.00	112.00			
Cardinal	May 28, 2007	FOB												427.00	108.00			
ON	May 22, 2007													427.00	118.00			
Montreal	May 28, 2007		216.00	250.00	208.00	187.00		278.88	229.58	110.00	180.00	N/A	497.50	N/A	N/A		270.00	360.00
QC (5)	May 22, 2007		216.00	260.00	208.00	194.00	FOB	275.08	221.08	110.00	180.00	N/A	497.50	N/A	N/A		270.00	360.00
Trois-Rivières	May 28, 2007	In-Store	213.00		216.00	185.42												
QC	May 22, 2007		214.00		215.00	187.39												
St. Jean QC (2)	May 28, 2007	FOB	195.67	208.33	181.67	182.81		310.50										
St. Hyacinthe QC	May 22, 2007		194.33	208.33	181.67	186.51		300.60										
Quebec	May 28, 2007	In-Store	219.75	N/A	233.53	186.86		284.67	273.03									
QC	May 22, 2007		219.75	N/A	233.34	188.39		281.55	267.49									
Truro	May 28, 2007	Track	258.35	N/A	251.55	213.19		324.61	249.97		207.10		752.00					340.00
NS	May 22, 2007		255.89	N/A	251.55	218.47	FOB	323.41	249.97		207.40		752.00					340.00
Truro	May 28, 2007	Water	N/A	N/A	N/A	N/A												
NS	May 22, 2007	& Truck	N/A	N/A	N/A	N/A												
Halifax	May 28, 2007	In-Store	228.25	N/A	N/A	202.55		341.00	306.50	297.50		N/A						
NS (6)	May 22, 2007		225.20	N/A	N/A	206.23		341.85	300.20	297.50		N/A						

Source: Market Analysis Division, Agriculture and Agri-Food Canada; Thunder Bay prices are based on the Winnipeg Commodity Exchange (WCE) market close

US$1.00 = CAN$ 1.0796

Closing date May 25/2007

Contact: André Doumbé Statistical Clerk Telephone: (204) 983-0581 Fax: (204) 983-5524 Email: doumbea@agr.gc.ca

N/A = not available

Footnotes: All prices in Canadian dollars per metric tonne based on survey respondents.
Grain grades (unless otherwise specified) are: Western or Eastern Feed Wheat, Feed Oats, No.1 Canada Western or Eastern Barley, No.2 Canada Yellow Corn, No.3 US Yellow Corn.
Soybean Meal 48 % Protein. Canola Meal based on minimum standard of 35% Protein. Fish Meal: white fish and/or herring meal. Gluten Meal 60% Protein. Gluten Feed 21% Protein.

(1) Wheat 3CWRS (2) Canadian Corn #3 or #2 (3) US Corn (4) Fish Meal from West Coast 63% Protein (5) Fish Meal 60% Protein (6) Herring Fish Meal (7) Fraser Valley (8) Wheat & Barley (Basis - Cash Price WCE) (9) Oats 3CW

B. CASH PRICES AND REPLACEMENT VALUES

May 28, 2007

PRAIRIE GRAINS

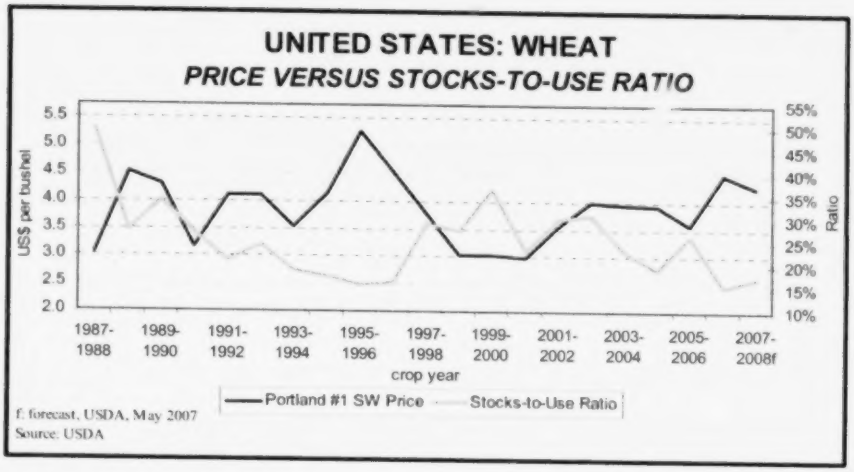
Selected Points	Price Basis		This week May 28, 2007	Last week May 14, 2007	Month ago April 30, 2007	Year Ago May 29, 2006
From: Thunder Bay(WCE) (2)	In-Store	Wheat	182.00	182.00	182.00	136.00
(CBOT)		Oat	275.50	253.00	265.00	180.20
(Lethbridge)		Barley	185.00	185.00	183.00	107.00
To: Bayport, ON (1)	In-store	Wheat	205.61	205.61	205.61	159.61
		Oat	N/A	N/A	N/A	N/A
		Barley	212.39	212.39	210.39	134.39
Montreal, QC (1)	In-store	Wheat	210.03	210.03	210.03	164.03
		Oat	N/A	N/A	N/A	N/A
		Barley	217.31	217.31	215.31	139.31
Moncton, NB	Truck via Halifax	Wheat	232.25	232.25	232.25	186.25
		Oat	N/A	N/A	N/A	N/A
		Barley	241.50	241.50	239.50	163.50
Truro, NS	Truck via Halifax	Wheat	226.22	226.22	226.22	180.22
		Oat	N/A	N/A	N/A	N/A
		Barley	239.00	239.00	237.00	161.00
Halifax, NS (1)	In-store	Wheat	217.28	217.28	217.28	171.28
		Oat	N/A	N/A	N/A	N/A
		Barley	225.30	225.30	223.30	147.30
Stephenville, NL	Track / Truck via Sydney	Wheat	280.63	280.63	280.63	234.63
		Oat	N/A	N/A	N/A	N/A
		Barley	N/A	N/A	N/A	N/A
Melfort, SK		Wheat	N/A	N/A	N/A	N/A
		Oat	N/A	N/A	N/A	N/A
	Track	Barley	N/A	N/A	N/A	N/A
Bayport, ON		Wheat	N/A	N/A	N/A	N/A
		Oat	N/A	N/A	N/A	N/A
	Track	Barley	N/A	N/A	N/A	N/A
Montreal, QC		Wheat	N/A	N/A	N/A	N/A
		Oat	N/A	N/A	N/A	N/A
	Track	Barley	N/A	N/A	N/A	N/A
Moncton, NB		Wheat	N/A	N/A	N/A	N/A
		Oat	N/A	N/A	N/A	N/A
	Track	Barley	N/A	N/A	N/A	N/A
Truro, NS		Wheat	N/A	N/A	N/A	N/A
		Oat	N/A	N/A	N/A	N/A
	Track / Truck via Sydney	Barley	N/A	N/A	N/A	N/A
Stephenville, NL		Wheat	N/A	N/A	N/A	N/A
		Oat	N/A	N/A	N/A	N/A
		Barley	N/A	N/A	N/A	N/A

Selected Points	Price Basis		This week May 28, 2007	Last Week May 14, 2007	Month Ago April 30, 2007	Year Ago May 29, 2006
Corn						
From: US Lake Port	On Board Vessel		162.36	164.50	159.93	112.03
To: Montreal, QC (1)	In-store		181.40	183.54	178.97	131.07
From: Chicago (IL)	Track		164.91	164.50	165.20	110.72
To: Montreal, QC	Track		193.77	193.36	194.06	139.58
From: Chatham, ON	Track		168.24	164.77	165.08	115.60
To: Montreal, QC	Track		192.11	188.64	188.95	139.47
Soymeal 48% Protein						
From: Hamilton, ON			281.36	264.33	248.02	232.92
To: Montreal, QC	Track		305.69	288.66	272.35	257.25
Moncton, NB	Track		324.44	307.41	291.10	276.00
Truro, NS	Track		327.66	310.63	294.32	279.22
Stephenville, NL	Track / Truck via Sydney		376.29	359.26	342.95	327.85

1. Prices include ONE month of storage and interest charges. n/a = not available
2. Thunder Bay prices are based on the Winnipeg Commodities Exchange market close (Cash price)

Source: Market Analysis Division, Agriculture and Agri-Food Canada
Contact: André Doumbé: Statistical Clerk (204) 983-0381 Fax: (204) 983-5524 e-mail: doumbea@agr.gc.ca

Footnotes: All prices quoted in Canadian dollars per metric tonne.
Grain grades (unless otherwise specified) are: Canada Western Feed Wheat, Feed Oats, No.1 Canada Western Barley, No.2 Canada Yellow Corn, No.3 US Yellow Corn.
Replacement value for grain in-store Montreal can be applied to Sorel, Trois-Rivières and Quebec.
Replacement values reflect quoted cash prices at shipping points plus the full transfer costs including duty and exchange where applicable.



higher than in 2005-2006, and exports are projected to increase slightly, to 4.3 Mt. Carry-out stocks are forecast to fall by 57%, to 1.4 Mt.

For 2007-2008, area seeded to durum is forecast to increase by more than 14%, to 2.0 Mha, but still 10% below the 10-year average. Production is forecast to increase by 17% to a slightly below normal 4.5 Mt, but supply will decline by 17% due to lower carry-in stocks. Exports are forecast to decline by 12%, to 3.8 Mt, due to increased competition from other exporters. Carry-out stocks are expected to fall by a further 15% to 1.1 Mt, well below the 10-year average and the lowest since 1997-1998.

PRICE OUTLOOK

Non-Durum Wheat

Wheat prices in world markets have strengthened significantly in **2006-2007**, as a result of smaller crops and reduced exportable supplies in all major exporting countries except Canada. As the major wheat futures markets are located in the US, and since the US is a major producer and exporter of wheat, the US market has a significant impact on world wheat prices. The US average farm price for wheat is estimated by the USDA at US$4.27/bu, 25% higher than 2005-2006. The wheat price has historically been highly correlated with the US s/u ratio. Prices in 2006-2007 are unusually high, given the current s/u ratio because of the increased role played by corn and ethanol in the grain market. The largest price increases have been for lower quality SRW wheat, with the average CBoT nearby futures price projected by AAFC to rise by about 35%, to about US$4.65/bu, due to a combination of the tight s/u outlook for SRW and spillover support from high corn prices.

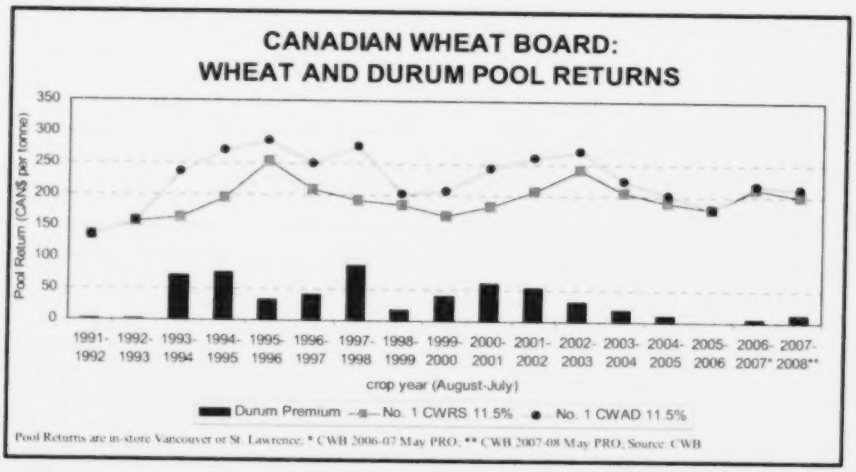
The increases for medium quality wheat have been less dramatic, with the benchmark US Hard Winter Ordinary Protein (HWO) price, free on board (FOB) Gulf Ports, projected to rise by about 13% to US$205t. Price increases for high quality milling wheat have been relatively modest, with the Dark Northern Spring wheat with 14% protein (DNS 14) price FOB Pacific Northwest (PNW) rising by about 5%, to US$205 per tonne (/t), due to the good quality of the US and Canadian spring wheat crops and high protein in the US HRW and HRS crops.

For **2007-2008**, world wheat prices will be pressured by increased supplies in the major exporting countries. However, the US supply and disposition situation for wheat and corn is expected to remain the major determining factor.

The average US farm price of wheat is forecast by the USDA to rise by nearly 10%, to US$4.35-4.95/bu. The price changes will vary by class of wheat, due to different supply and disposition factors.

SRW prices on the CBoT are expected to have greater price strength than will HRW prices on the KCBT. This is due to a smaller production increase and spill over support from strong corn prices, resulting in strong demand for feed use. US nearby futures prices for **SRW wheat** on the CBoT are forecast by AAFC to decrease slightly from 2006-2007, and average about US$4.60/bu (June-May), due to rising stocks.

US **HRW wheat** carry-out stocks are projected to rise by 23%, which should result in a smaller premium over SRW wheat than in the previous year. The average nearby



KCBT HRW price is forecast to be unchanged at US$4.90/bu. AAFC forecasts that the US HWO Gulf price will decrease slightly for 2007-2008, to about US$200/t (August-July).

HRS wheat prices on the MGE are expected to be supported by a return to normal crop quality and protein content, despite a relatively stable s/u ratio. US HRS wheat carry-out stocks are expected to increase, from 119 Mbu to 130 Mbu, but offsetting price support is expected to come from a return to normal quality and protein content in the US and Canadian spring wheat crops. The premium over the KCBT is expected to remain near zero, similar to 2006-2007 versus the historical average of US$0.15/bu. The average nearby MGE futures price is forecast to remain unchanged, at US$4.90/bu. Prices for high protein wheat will be supported by reduced supplies in Canada and Australia (until their 2007-2008 harvest commences in December 2007). The DNS 14 price is forecast to remain unchanged, at US$215/t, FOB PNW.

Durum Wheat Prices

Durum prices have risen sharply in 2006-2007 due to lower production in the major exporting countries, particularly the US and Canada, which more than offset increased production in the major importing region, North Africa. Major exporter carry-out stocks are forecast to fall by 34%, to 3.4 Mt, with the benchmark US No.3 Hard Amber Durum (3 HAD) Gulf price expected to increase by over 30%, to US$235/t (August-July).

For 2007-2008, world durum supplies are forecast by AAFC to increase slightly, but increased import demand will result in carry-out stocks declining by a further 12%, to 3.0 Mt. The US No.3 HAD Gulf export price is forecast to rise slightly, to US$240/t in 2007-2008.

Canada

Grain prices in Canada markets are generally competitive with US prices. Canadian wheat prices are therefore impacted by US crop conditions, domestic consumption and exports. Wheat is traded on world markets in US dollars, and a stronger Canadian dollar reduces returns in Canadian dollar terms.

The CWB Pool Return Outlook (PRO) for **2006-2007** is significantly above 2005-2006 for all classes and grades of wheat, with the largest increases for low and medium quality wheat, consistent with the outlook for world and US prices.

For **2007-2008**, the CWB May PRO for No.1 CWRS 12.5% protein is $205/t versus $215/t for 2006-2007. Lower prices are also expected for for all other grades and classes. Despite AAFC projections for higher DNS 14 prices and unchanged HRW prices in the US, the strength in the Canadian dollar against the US dollar is expected to reduce pool returns. For durum, the CWB May PRO in-store Vancouver/St. Lawrence for No.1 CWAD 12.5% protein is $217/t versus $221/t for 2006-2007. The decrease is due to the strength in the Canadian dollar relative to the US dollar, despite stronger world and US prices.

Canadian wheat prices will continue to be pressured by the stronger Canadian dollar. Currently, the Canadian dollar is valued at about US$0.92, and has averaged US$0.87 for 2006-2007 to-date. If the Canadian dollar continues to strengthen relative to the US dollar, the exchange rate will have an impact on the year-over-year change in returns.

For 2007-2008, the Canadian dollar is expected to be significantly stronger than it was in 2001-2002, when it fell to an all-time low of under US$0.65. To put this into perspective, the No.1 CWRS 13.5% PRO for 2007-2008 would be more than CAN$80/t higher than currently projected, at over CAN$290/t, if the Canadian dollar were worth US$0.65 rather than the current value.

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Electronic version available at www.agr.gc.ca/mad-dam/

ISSN 1207-621X
AAFC No. 2081/E

Bi-weekly Bulletin is published by the:
Market Analysis Division,
Research & Analysis Directorate
Strategic Policy Branch
Agriculture and Agri-Food Canada.
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To receive a free e-mail subscription to Bi-weekly Bulletin, please send your request to bulletin@agr.gc.ca.

Issued also in French under title:
Le Bulletin bimensuel
ISSN 1207-6228
AAFC No. 2081/F

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While the Market Analysis Division assumes responsibility for all information contained in this bulletin, we wish to gratefully acknowledge input from the following:
Canadian Wheat Board, Market and Industry Services Branch (AAFC)